



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
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DEC 20 2011

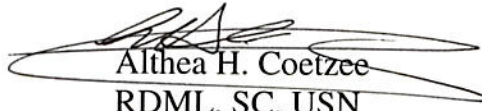
MEMORANDUM FOR DISTRIBUTION

Subject: Cost and Price Analysis of Spare Parts Required Before Exercising an Option

By the attached memorandum dated December 15, 2011, the Director of Defense Pricing advises Contracting Officers that the Department of Defense Inspector General recently found instances of significant overpricing in a sample of spare parts under a firm-fixed price contract that contained options. If the Contracting Officer had exercised the options, this would have resulted in a significant overpayment to the contractor.

To protect the Government's interest, before exercising an option under a contract containing spare parts, the Contracting Officer must perform cost or price analysis of the proposed spare parts using an appropriate sampling technique or by obtaining field pricing assistance. The Contracting Officer must consider the outcome of this analysis when preparing the written determination for the contract file required by 17.207(f). Accordingly, please advise your Contracting Officers of this requirement.

My point of contact for this memorandum is Evelyn Ortiz. She may be reached at telephone (703) 614-9640 or by email at evelyn.ortiz@navy.mil.


Althea H. Coetzee
RDML, SC, USN
Executive Director
DASN(AP)

Attachment:
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Subject: Cost and Price Analysis of Spare Parts Required Before Exercising an Option

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DEC 15 2011

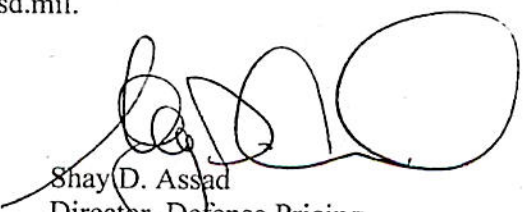
MEMORANDUM FOR COMMANDER UNITED STATES SPECIAL OPERATIONS
COMMAND (ATTN: ACQUISITION EXECUTIVE)
COMMANDER UNITED STATES TRANSPORTATION
COMMAND (ATTN: ACQUISITION EXECUTIVE)
DEPUTY ASSISTANT SECRETARY OF THE ARMY
(PROCUREMENT)
DEPUTY ASSISTANT SECRETARY OF THE NAVY
(ACQUISITION AND PROCUREMENT)
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING)
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Cost and Price Analysis of Spare Parts Required Before Exercising an Option

A recent DoD Inspector General (IG) review of spare parts under a firm-fixed-price contract found significant overpricing in a sample of the parts in the contract. The review also discussed that if the subject contract options were exercised this would further increase the overpricing resulting in significant overpayment to the contractor.

Before exercising an option, the contracting officer shall make a written determination for the contract file that exercise is in accordance with the terms of the option, the requirements of FAR 17.207, and the requirements of FAR Part 6. To protect the Government's interest, the Contracting Officer, before exercising any option for firm-fixed-price contracts containing spare parts, must perform cost or price analysis of the proposed spare parts. The Contracting Officer must use an appropriate sampling technique or request field pricing assistance to complete this requirement. The Contracting Officer must document the file with the results of the cost or price analysis and consider the results before exercising any option containing spare parts for firm-fixed-price contracts.

My point of contact for this memorandum is Mr. Clyde Wray, who can be reached at 703-602-0288 or via e-mail at clyde.wray@osd.mil.


Shay D. Assad
Director, Defense Pricing

cc:
Director, Defense Procurement and Acquisition Policy